
The Great Atlantic & Pacific Tea Company, Inc.
Annual Report 1977

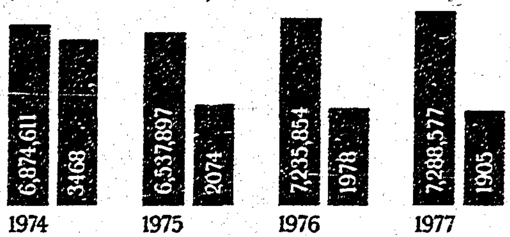
Contents

Comparative Highlights

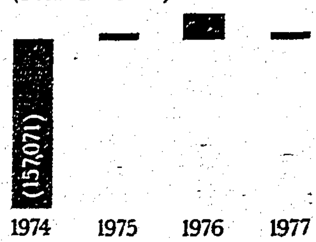
(Dollars in thousands except per share figures)

For the fiscal year	1977	1976
Sales	$7,288,577	$7,235,854
Net income	4,791	23,781
per share	.19	.96
per cent of sales	.07	.33
Additions to property	104,814*	94,633
Number of stores	1,905	1,978

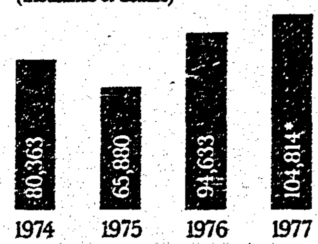
Dollar Sales and Number of Stores at Year End
(Sales: thousands of dollars)



Net Income (Loss)
(thousands of dollars)



Additions to Property
(thousands of dollars)



*Includes $35 million in leased equipment. Excludes real property leased under capital leases.

To Our Stockholders:

In the fiscal year ended February 25, 1978, A&P sales hit a record $7,288,577,000, as compared with $7,235,854,000 the year before; but net income fell to $4,791,000 or 19 cents a share, compared with $23,781,000 or 96 cents a share.

This earnings setback has made it painfully evident that the task of restoring A&P to sustained profitability is going to take longer than we had hoped. Although we have moved ahead in sales despite closing about one-half of our stores, the overall increase has not been anywhere near sufficient to compensate for continuing high operating costs.

So intense is the day-to-day pressure for the consumer's dollar that we now find ourselves operating constantly on the razor's edge of profitability. As a result, incidents which would not normally be expected to have a major overall impact—a labor strike in our Philadelphia Division or Connecticut stores, the closing of a bakery in Columbus, an unavoidable currency translation loss on our Canadian operations—have a disproportionate impact on our earnings.

At the same time, the beneficial effect of capital expenditures, amounting to some $100 million a year, is scarcely perceptible because most of these millions are targeted as "up-front" expenditures aimed at restoring or replacing our existing physical plant which had been allowed to deteriorate for years.

Faced with these critical conditions, the temptation is to desert our costly long-range programs in favor of pursuing short-term gains. This we have refused to do because we remain convinced that a healthier, more profitable A&P will emerge only through a broad-based restructuring of our resources.

Given the highly competitive nature of the food business, it is quite clear that A&P cannot soon attain consistent profitability playing "catch-up" with other chains. Improvement in our profitability must spring from a fundamental change in the A&P structure, as well as from increased operating effectiveness.

In the coming months we will concentrate on bringing more profit to the bottom line through stepped-up productivity and the application of strict cost controls to all our operations. We must generate sufficient sales to compensate for precipitous increases in labor, energy, and other basic operating costs.

Together with an outside consulting firm, for the past five months we have been assessing the impact of our redevelopment program to date and are formulating specific operating strategies aimed at coming to grips with the substantial difficulties which still confront us. While we believe progress has been made in resolving many of our basic problems, further long-term changes in our company's operations are inevitable.

In this regard, a pertinent discussion of some of the critical challenges facing A&P and other companies in the retail food industry will be found in the succeeding section of this report under the heading "The Years Ahead."

As part of our basic rebuilding program during fiscal year 1977, we closed 119 unprofitable stores and various support facilities, while constructing 46 larger supermarkets and combination food and drug units. We enlarged and remodeled 83 units. All told, capital expenditures were $105 million. In the current fiscal year, we expect to spend $85 million on capital improvements. We plan to build 44 supermarkets averaging 30,000 square feet, 10 combination stores averaging 55,000

Richard F. Doyle	**Robert G. Ulrich**	**Allan A. Feder**	**Jonathan L. Scott**	**David W. Morrow**
Executive Vice President, Finance and Treasurer (standing, left)	Vice President and General Counsel (standing, center)	Executive Vice President, President–Manufacturing Group (standing, right)	Chairman of the Board of Directors and Chief Executive Officer (seated, left)	President and Chief Operating Officer (seated, right)

square feet, and will enlarge or remodel 47 units.

Recognizing that our stores will prosper only to the extent that customers are well served, we continue to work hard at upgrading the skills of employees, including management people, in our stores.

With the private placement last September of $100 million in 9½ per cent, 15-year notes, we were able to completely pay off the amounts owed under our bank term and revolving credit agreements. The placement, made with Prudential Insurance Company of America and Equitable Life Assurance Society of the United States, has given us added financial flexibility.

We have made further refinements in our regional operating units in an effort to remove excess layers of management and establish more direct channels of communication between our field operators and central administrators. In this way we expect to reduce expenses and free up operating managers to devote greater effort to in-store profit centers.

Our network of 22 grocery, dairy, coffee, and bakery plants has been consolidated into a single Manufacturing Group to better meet the needs of our stores and customers and the requirements of our growing list of clients at Compass Foods, Inc., the subsidiary unit handling A&P product sales to other food merchandisers in the United States and abroad.

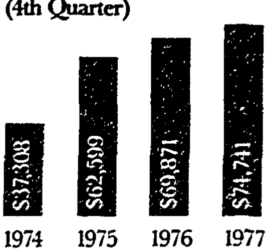
Payment of quarterly dividends was resumed in June 1977, and a dividend of five cents a share was declared by the Board in each succeeding quarter of the fiscal year.

David W. Morrow, President and Chief Operating Officer, succeeded Grant C. Gentry, who resigned as president in November. Mr. Gentry entered the consulting profession.

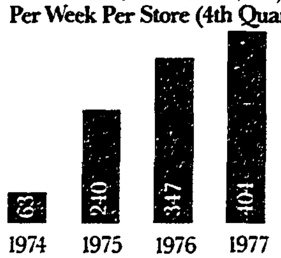
Realistically, there are many, many difficult decisions yet to be made before achieving our redevelopment goals. Nevertheless, I remain confident that the demonstrated commitment of our thousands of employees assures our getting the job done. To each of these employees and to our many stockholders, whose support is most encouraging to all of us, I express my sincere thanks.

Jonathan L. Scott
Chairman of The Board of Directors
and Chief Executive Officer
May 12, 1978

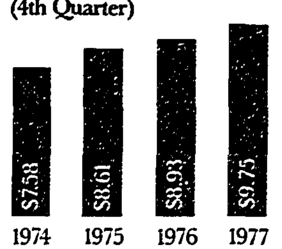
Average Weekly Sales per Store (4th Quarter)



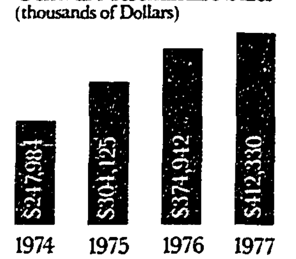
Number of Stores Over $100,000 Per Week Per Store (4th Quarter)

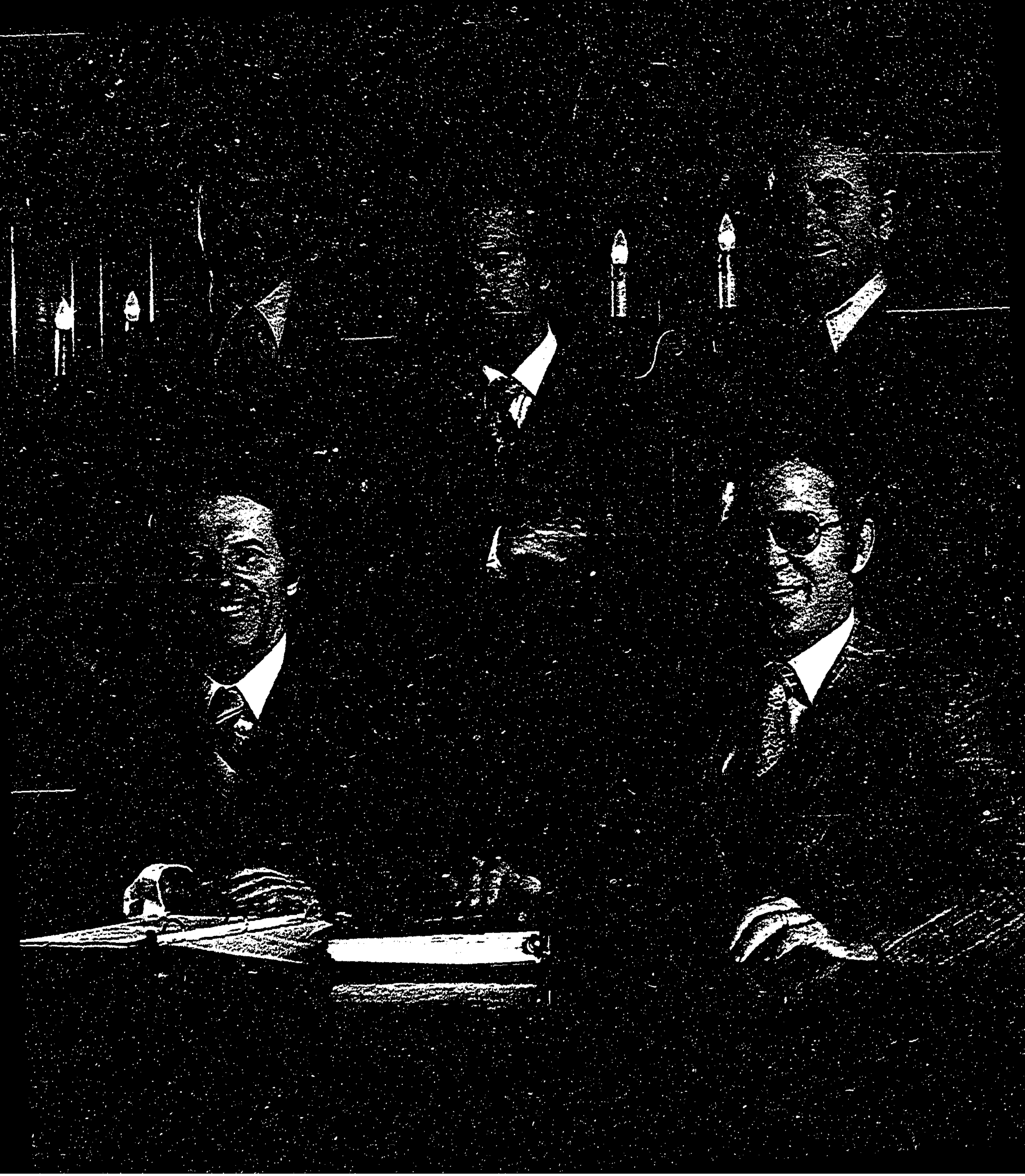


Average Sales Per Transaction (4th Quarter)



General Merchandise Sales (thousands of Dollars)





A&P has been a part of family life in America for 119 years, providing wholesome and economical products to suit every dining occasion, as portrayed here and on succeeding pages.

A bounteous holiday dinner graced by glowing candles and the treasured lace tablecloth from grandmother's hope chest...

One of the certainties that faces A&P and other businesses is a changing environment. Demographics change, people's buying habits change, swings in the economy force changes. It is a difficult task to anticipate change while at the same time keeping intact those things which should not change.

Myriad changes have been made in A&P since the start of its redevelopment program in 1975. During this critical period, all the people at A&P have undergone significant stress. It bodes well for the future of the company that substantial accomplishments have been made in this redevelopment environment. There are still changes to come; hopefully, the extent of future changes will not be any greater than those of the past three years.

Assuming that a major portion of the program designed to transform A&P into a modern, business-oriented organization is in process, what does the future hold for A&P within our industry and as a major corporation?

Industry predictions would indicate that real sales growth by supermarkets will be only minimal over the next five years. If those predictions are correct, then the average company in the industry cannot expect to grow much more rapidly than the rate at which food prices are affected by inflation. Without a significant increase in unit volume, there is little need to increase the total industry-wide square footage of selling space, since today the industry seems to be able to service most of its customers' requirements. If a company believes that it will grow in this industry at a faster rate than food inflation, it must also believe that it can increase its sales at the expense of competitors or that it is in markets which will experience real growth. What will permit one company to

Momentarily-shy Brian's seventh birthday party, a festive scene of youthful pandemonium with an eight-candled cake—"one to grow on"...

increase its sales at the expense of another? Is an increase in overall market position a necessity for a company to be successful in this industry, or is it more important to concentrate on certain markets where the probability of success is greater? What are the ramifications to A&P of the success enjoyed by certain regional chains, convenience stores, and non-union independents? What alternatives does a company in this industry have to improve its profitability and return on investment? In particular, what alternatives does A&P have and what resources does it have to achieve growth and improved profitability?

Tradition

A&P has a name which is synonymous with food retailing. Since 1859, A&P has been dedicated to a policy of quality food, low prices, and service to the consumer. The continuation of this dedication is a fundamental part of the operating philosophy of the company.

Management

Over the last three years, an almost totally revamped management group has been assembled. A series of changes in organizational form has resulted in the present structure, which permits substantial centralized control over financial and other total-corporate decisions and local (divisional) capability to act on required merchandising and store operating decisions. A company to be successful must be constantly looking to upgrade personnel and to create the organizational structure which will permit it to function most effectively. A&P will continue to upgrade its personnel at all levels in order to take advantage of the opportunities available to it.

Systems

In order to permit an organization to function effectively in a company the size of A&P, adequate, accurate, and timely information must be available with which to control operations, anticipate problem areas, and to make proper business decisions. A&P has spent and must continue to spend substantial sums in bringing archaic management information systems up to a level of reasonable adequacy. Our systems are improving and will continue to improve at a rapidly increasing rate. Judgments are now being made on more valid and complete information than has been possible in the past.

Manufacturing

Past corporate strategies dictated the building of a large variety of manufacturing facilities (grocery, bakery, dairy, etc.), in many cases in anticipation of substantial increases in volume. Over the last three years the number of manufacturing facilities has been reduced from 45 to 22 today in an attempt to produce only those items where there are distinct cost advantages and to improve the utilization of the remaining facilities. A concerted effort has been made to install modern management methods in the manufacturing operations such as control over yields, industrial engineering disciplines, and better cost information. The ability of A&P to determine make or buy decisions and to be able to properly implement those decisions is improving. As these decisions are made, the increasing flexibility to buy from other producers when that makes good business sense and to produce internally when that is more beneficial, should result in improved

A joyous Sunday evening meal where the invitation "Come, pass your plate, dear," carries the promise of delicious food prepared from time-honored recipes...

merchandise costs and therefore a more competitive stance in the A&P market areas.

Property Development

New approaches to site selections for new stores have been instituted during the past three years. Internally-generated market research, stringent return on investment requirements, more cost-effective leasing arrangements, and standardized or prototype store designs are of recent vintage for A&P and should result in a higher percentage of successful store openings than has been the experience of the past. These improvements are only now beginning to be felt in some of our recent store openings. 1978 and beyond should show increasing benefits from this new approach.

Labor

A major problem to a national old-line chain such as A&P is the high percentage of unionized employees who are working under contracts, the major provisions of which were negotiated in the past under substantially different business conditions. The strong emergence of non-union independents and in many cases the more beneficial contracts which have been negotiated by more recently union-organized competitors creates a competitive disadvantage to A&P and certain other chains in certain markets. For the most part, the leadership of most unions realizes that their membership can only be sustained over time if union-related labor and benefit costs do not make the employer non-competitive. Both A&P management and many union leaders have been attacking the question of how to revise union contracts to permit the company to be cost-competitive in those markets where there is substantial non-union competition and at the same time provide for a wage and benefit package acceptable to the union membership. Progress is being made in this area. It will require continuing effort and understanding on the part of A&P management, the union leadership, and the union membership to permit us to earn a satisfactory return on our investment in all major markets and therefore to continue to provide employment for our thousands of unionized employees.

Operations

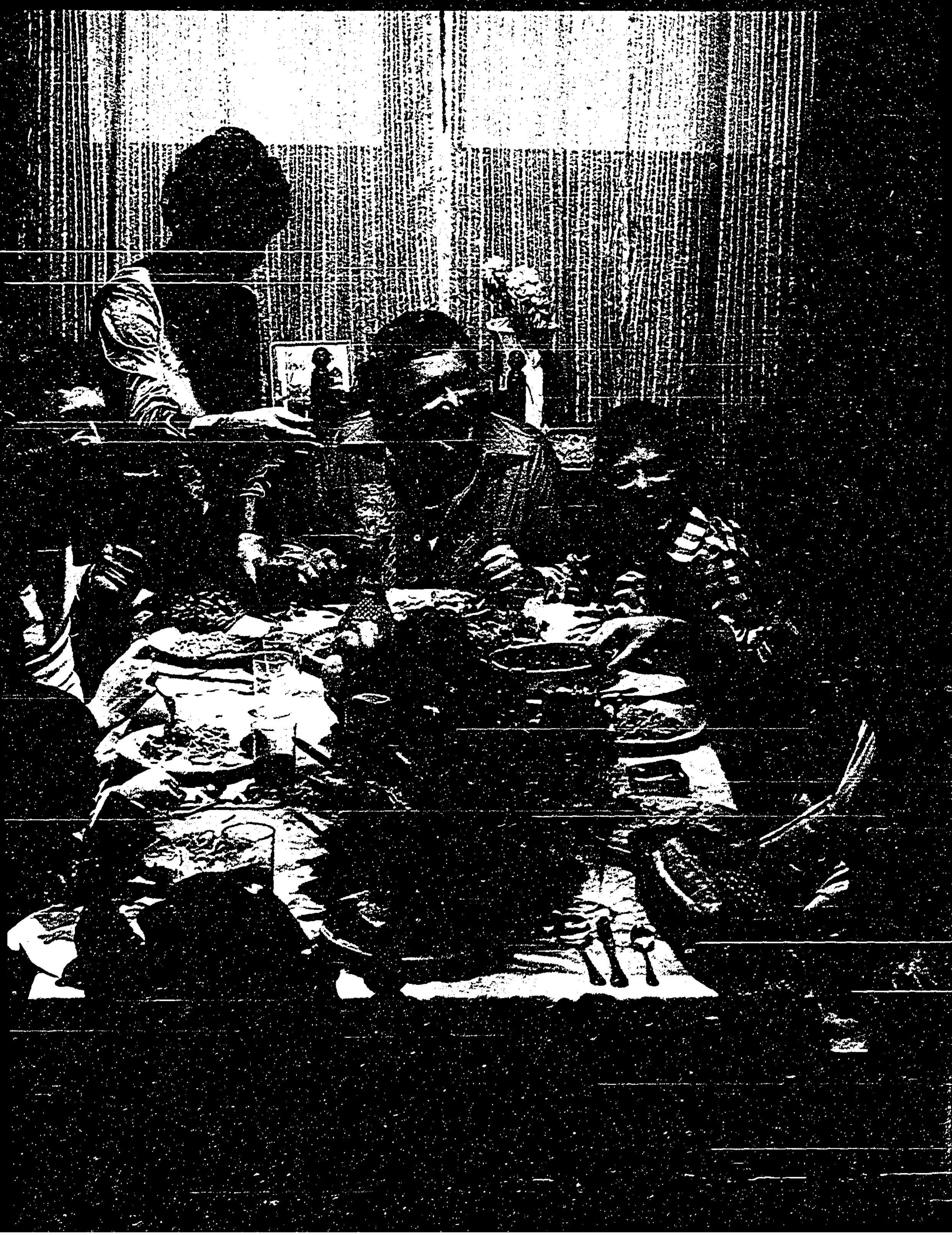
New programs have been instituted to improve our warehousing and distribution practices, to sharpen our advertising and merchandising techniques, to better train our employees, and to correct improper safety practices. Cost effective energy programs are in place. Many new approaches to provide better relations with our customers and to control our costs have been put into effect. This is a major concern and one that has top priority today.

Multi-market Participation

There are advantages to the geographic dispersion of an A&P. Problems related to weather conditions, price wars, strikes, etc., can have serious adverse effects on us; but it would be highly unlikely that all of our markets would be affected adversely at the same time. This permits us greater overall stability than those competitors who rely upon one or few markets.

Capital

A critical requirement in the long-term success of



Saturday morning breakfast, a warm and special period of shared peace and family comfort...

any company is its ability to generate or otherwise have access to adequate capital. Given reasonable profitability, A&P has substantial cash-generating capability. Annual depreciation charges amount to over $60 million. Because of our net operating loss position, future profits in the U.S. of approximately $100 million can be earned before we will have any Federal income tax to pay. We also have approximately $25 million in investment tax credit carry-forwards, which can be used to offset future taxable income. In addition to these internally-generated capital possibilities, we have substantial flexibility under our long-term debt agreements for additional borrowings and leasing of various types. Our relationships with our principal banks and other lenders are good. Unless totally unforeseen circumstances occur, there appears to be reasonably adequate access to capital for A&P.

The Future

With much of the groundwork laid in terms of people, organization, physical facilities, and systems and with reasonable access to adequate capital, what does it mean for the long-term future of A&P, its employees, and its stockholders?

It means that A&P can be a viable competitor in those markets where it chooses to employ its talents and capital to the utmost. It means, though, that even with the resources of A&P, the probabilities of spectacular growth either in sales or in profitability are not high—competition is strong, the overall market is predicted to grow very slowly, and there continues to be serious problems in many of our markets. It means that constant reviews and re-evaluations must be made to make sure that A&P is employing its various resources in those market areas, in those businesses, and in those product lines which provide the highest probability of adequate returns to its stockholders. This company has the overall resources to continue to be a significant and profitable part of the supermarket industry.

Future years point to a need to adapt to changing economic, social, and political trends. The function of management is to insure that the stockholders' capital is channeled to those businesses and to those markets which will optimize the return on this capital, to insure that the business of the company is capably managed at the operating level, and to provide for its employees on a fair and equitable basis. At A&P the resources to meet changing conditions and to produce a competitive return on investment are present. The achievement of adequate profitability and return on investment will require the dedication and ability of all the people who are part of this company.

William Corbus did not stand for re-election as a director at the June 1977 Stockholders Meeting. During the fiscal year Allan A. Feder was elected a director. Following the resignation of Grant C. Gentry as president and a director, the number of Board members was reduced to twelve.

During fiscal 1977, several senior management changes were made:

David W. Morrow relinquished the title of vice chairman and was elected president upon Mr. Gentry's resignation. Mr. Morrow continues as chief operating officer.

Robert F. Longacre resigned as vice chairman and director.

Allan A. Feder was promoted to executive vice president.

Richard F. Doyle was elected executive vice president-finance and treasurer to replace M. Dean Potts, who resigned, as chief financial officer.

Lowell A. Peters was promoted from vice president and regional president to executive vice president in charge of the Southern Group, which encompasses seven operating divisions.

James L. Madden was elected vice president and president of the Northeastern Region.

Three vice presidents and regional presidents—Richard J. Flositz, Frank R. Olivito, and C. Garfield McDade—resigned during the year.

Louis A. Saverese was elected vice president-production for the manufacturing group, and James T. Gow, Jr., was elected vice president-warehousing and distribution.

Philip E. Hoversten was promoted to assistant treasurer, and Harold N. Tolchinsky was promoted to assistant secretary.

Subsequent to year-end, certain other changes were made:

William I. Walsh, executive vice president, was elected president of Supermarket Systems, Inc., our management and consulting subsidiary.

Robert B. Runyon was elected executive vice president-human resources to direct the total personnel and industrial relations activities.

Roger L. Galassini, previously vice president-human resources and personnel, has been designated vice president-administrative services.

Willis D. Lonn was promoted to executive vice president-merchandising and procurement.

Lawrence W. Snyder, previously a company officer, was elected a corporate officer with the title vice president-merchandising.

Following is a summary of the Company's accounting policies that significantly affect the determination of financial position and results of operations.

Fiscal Year—The Company's fiscal year ends on the last Saturday in February. Fiscal 1977 ended February 25, 1978 and Fiscal 1976 ended February 26, 1977.

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant inter-company accounts and transactions have been eliminated.

Foreign Operations—Assets and liabilities of foreign subsidiaries have been translated at year end rates except for inventories, net property and certain deferred items which have been translated at historical rates. Income and expense accounts, except cost of sales and depreciation and amortization, have been translated at average rates prevailing during the fiscal year. Foreign exchange losses in fiscal 1977 amounted to $2.4 million compared with a loss of $1.1 million in fiscal 1976.

Inventories—Inventories are stated at the lower of cost or market, with cost being determined on the following bases: inventories in stores—average cost under the retail method; majority of remaining inventories—cost on a first-in, first-out basis. Raw materials and supplies, principally at manufacturing facilities, constitute approximately 10% of total inventories.

Properties—The Company leases a substantial portion of its facilities. Most of these leases are presently accounted for as operating leases for financial reporting purposes. Some of the leases for stores opened in fiscal 1977, as well as many presently being negotiated by the Company and some prior leases are considered capital leases under FASB Statement No. 13 which requires the capitalization of such leases entered into after January 1, 1977. Retroactive capitalization of all pre-1977 capital leases will be required by fiscal 1978 under present regulations of the Securities and Exchange Commission. The effect on the fiscal 1977 financial statements of capitalizing such leases entered into after January 1, 1977 was not significant.

Land and buildings consist almost exclusively of manufacturing facilities and warehouses. Equipment, store fixtures and leasehold improvements are generally owned, although beginning in fiscal 1977 the Company has entered into equipment leasing programs for store equipment and trucks, a portion of which leases is accounted for as capital leases. Major renewals and betterments are capitalized, whereas maintenance and repairs are charged to operations as incurred. Gains or losses on disposition of assets are recognized currently. Fully depreciated property is written off against the related depreciation reserve. Net losses on disposition of properties included in the facilities closing program have been charged to reserves previously provided therefor.

Depreciation and Amortization—For financial reporting purposes, depreciation and amortization are provided, generally on the straight line method, over the estimated useful lives of the respective assets. Approximate annual depreciation rates for properties are as follows: buildings—2% to 5%; store and other equipment, except automotive—8⅓% to 10%; store fixtures and leasehold improvements—10% to 12½% and automotive equipment—14²⁄₇% to 33⅓%.

Pre-opening Costs—Expenses incurred in the opening of a new store are charged to expense in the quarter in which the store is opened.

Facilities Closing Program—Operating results of stores included in the facilities closing program are excluded from the statement of consolidated income (from the effective date of inclusion in the facilities closing program) and charged to reserves provided therefor, together with closing costs, ongoing lease payments and net losses on disposal of related property. As to the premature closing of stores outside of the facilities closing program, the Company provides for the estimated loss on the remaining lease obligation at the time the date for closing the store is established.

Income Taxes—Deferred taxes have been provided in prior years in recognition of timing differences between income for financial reporting and income tax purposes. Approximately $7 million of deferred income taxes have not been provided on undistributed earnings of foreign subsidiaries considered to be permanently invested. Investment tax credits, previously utilized for tax purposes, have been deferred and amortized over the estimated useful lives of the related assets.

Retirement Plans—Annual costs of the companies' retirement plans are funded currently. Annual costs of the companies' U.S. pension plan consist of normal cost plus amortization of unfunded prior service costs as of January 1, 1976 over 40 years and amortization of annual actuarial gains or losses over 15 years. Annual costs under union/management administered plans are expensed as provided for in the respective collective bargaining agreements.

Earnings Per Share—Net income per share is based on the weighted average number of common shares outstanding during the respective fiscal years. Stock options outstanding (common stock equivalents) had no material dilutive effect and, therefore, were excluded from the computation of earnings per share.

Fiscal 1977 Sales and Net Income

(Unaudited as to interim amounts)

Reported sales for fiscal 1977 of $7.3 billion were only modestly above fiscal 1976 sales of $7.2 billion. This reflects the closing during the last two fiscal years of a total of 315 stores during which time only 146 stores were opened or acquired, including 6 new 55,000 square feet Family Mart stores; for a net reduction of 169 stores. While the number of stores in operation decreased, the average weekly sales per store increased from $62,599 at the end of fiscal 1975 to $74,741 in the fourth quarter of fiscal 1977, an increase of 19% in two years. Sales and operating results of the 62 stores acquired from National Tea Company are included from date of acquisition in November 1976. The operations of stores and support facilities included in the "Facilities Closing Program" discussed elsewhere in this report, are excluded from the statement of income.

The quarterly operating results for the last two fiscal years are shown in the table below:

	Quarterly Operating Results					Per Share Amounts				
	Number of Stores	Sales	Gross Profit	Income before Extra-ordinary Item	Net Income (Loss)	Income before Extra-ordinary Item	Net Income (Loss)	Dividends	Market Price High	Market Price Low
		(millions)		(thousands)						
Fiscal 1976										
First Quarter	2,055	$1,734	$ 347	$ 3,703	$ 6,303	$ .15	$ .25	—	$15⅝	$12
Second Quarter	2,034	1,789	363	6,282	10,682	.25	.43	—	13½	10⅝
Third Quarter	2,077	1,810	368	3,085	5,085	.13	.21	—	13⅛	10⅞
Fourth Quarter	1,978	1,903	387	711	1,711	.03	.07	—	14¾	11⅝
		$7,236	$1,465	$13,781	$23,781	$ .56	$ .96	—		
Fiscal 1977										
First Quarter	1,960	$1,780	$ 364	$ 3,780	$ 6,680	$ .15	$ .27	—	$13⅛	$10
Second Quarter	1,931	1,827	382	769	1,269	.03	.05	$.05	11½	9⅞
Third Quarter	1,917	1,811	393	(3,022)	(5,022)	(.12)	(.20)	.05	10½	7⅛
Fourth Quarter	1,905	1,871	412	1,664	1,864	.07	.07	.05	10¼	7¼
		$7,289	$1,551	$3,191	$ 4,791	$ .13	$ .19	$.15		

As indicated in last year's Annual Report, the Company did not expect the dramatic sales increases experienced through the second quarter of fiscal 1976 to continue in fiscal 1977. Earnings performance in fiscal 1977 was adversely affected by the declining rate of sales increase. Sales for the fourth quarter of fiscal 1977 were behind the same period of the prior year due largely to the reduction in the number of stores in operation. While most costs continued to increase, our administrative costs have been reduced significantly due in part to the elimination of a level of regional operating management in September 1977.

Net income for all periods is after an extraordinary item representing the utilization of the Company's tax loss carryforward in an amount equivalent to a normal U.S. tax provision that would otherwise have been applicable to those earnings. The net extraordinary credit amounted to $1.6 million and $10.0 million in fiscal 1977 and fiscal 1976, respectively. The third quarter of fiscal 1977 reflects a loss of $5.0 million, including a $2.6 million charge for the costs of closing a bakery and other costs associated with the Company's redevelopment program.

Fiscal 1976 earnings include a pre-tax charge of approximately $5.2 million in the first quarter for the value of equipment and signs disposed of or replaced, a $1.3 million credit in the third quarter from the settlement of a service contract, and $500,000 net addition to the facilities closing reserve in the fourth quarter.

Facilities Closing Program

A $200 million facilities closing reserve was established at the end of fiscal 1974 to cover the estimated cost of a facilities closing program that contemplated the closing of approximately 1,250 unprofitable and marginal stores and certain related support facilities. Modifications to that program in fiscal 1975 and 1976 increased the number of stores to be closed to approximately 1,450 and added support facilities. The activity in the facilities closing reserve for the last two fiscal years is summarized in the table to the right.

Facilities Closing Program Reserve

(millions)	Current Liabilities	Property Valuation	Non-Current Liabilities	Total
Balance February 28, 1976	$27.5	$15.0	$37.0	$79.5
Charges	(37.9)	(6.2)	–	(44.1)
Adjustments:				
Reduction in Reserve	–	(7.4)	(1.6)	(9.0)
Increase for Inclusion of Additional Units in Program	7.7	1.6	.2	9.5
Transfer to Current Liabilities	21.2	–	(21.2)	–
Balance February 26, 1977	18.5	3.0	14.4	35.9
Charges	(21.7)	(3.0)	–	(24.7)
Transfer to Current Liabilities	6.2	–	(6.2)	–
Balance February 25, 1978	$ 3.0	–	$ 8.2	$11.2

Income Taxes

The provision for income taxes set forth in the table below includes a charge in lieu of U.S. Federal income taxes of $1.6 million in fiscal 1977 and $10.0 million in fiscal 1976. An equivalent amount has been reflected as an extraordinary credit in the statement of income in recognition of the corresponding tax benefit resulting from the utilization for financial statement purposes of the Company's operating loss carryforward.

Provision for Income Taxes

(thousands)	Fiscal 1977	Fiscal 1976
Current:		
U.S. and Canadian	$1,740	$10,176
State and Local	345	100
Amortization of Investment Credits	(1,695)	(1,805)
	390	8,471
Deferred	1,810	1,974
	$2,200	$10,445
Extraordinary Credit–Tax Benefit of Operating Loss Carryforward	$1,600	$10,000

The Company will, in future years, continue to reflect as an extraordinary credit that portion of its operating loss carryforward which it realizes for financial statement purposes.

At the end of fiscal 1977, the Company had an operating loss carryforward for financial statement purposes of approximately $100 million which arose principally from the provisions for the facilities closing program. The corresponding net operating loss carryforward for U.S. income tax purposes is also approximately $100 million which expires in fiscal 1982 through 1984. In addition, the Company has unused investments tax credits of approximately $25.6 million. These unused credits, which have not been recognized for financial statement purposes, will expire as follows: Fiscal 1981–$4.4 million, fiscal 1982–$7.2 million, fiscal 1983–$8.0 million and fiscal 1984–$6.0 million.

The Company's effective tax rates were 41% for fiscal 1977 and 43% for fiscal 1976. The difference between the effective rates and the U.S. statutory rate of 48% is attributable to the Company's policy of amortizing investment tax credits, the effective rates of state and local income taxes and unrealized foreign exchange translation losses. The deferred tax provision represents the excess of depreciation deductions of a Canadian subsidiary for tax purposes over amounts recorded for financial statement purposes.

Long-Term Debt

In September 1977, the Company concluded a $100,000,000 private placement of 9½% Senior Promissory Notes payable in annual installments of $10,000,000 on October 1, 1983 through October 1, 1992. The proceeds were used to prepay amounts outstanding under the Company's Term Loan and Revolving Credit Agreements, which agreements were cancelled. The Company also obtained a $20,000,000 loan with interest at 9⅞% secured by a first mortgage on the Company's principal manufacturing facility in Horseheads, NY.

The related credit agreements, among other things, restrict dividends to $12.5 million plus 75% of net income subsequent to February 27, 1977. At February 25, 1978 approximately $12.5 million of retained earnings is available for payment of dividends. The Company is also required to maintain consolidated working capital of not

less than $175,000,000.

Long-term debt at February 25, 1978 consists of the $100 million Senior Promissory Notes, $18.6 million of the First Mortgage referred to above and $15.6 million of other mortgages and notes payable. The present value of lease obligations capitalized under the requirements of FASB No. 13 is included as a separate caption in the accompanying balance sheet. The maturities of long-term debt as of February 25, 1978 are approximately $1.6 million in each of the next five years.

Long-term debt at February 26, 1977 was comprised of a $50 million term loan, $48 million outstanding under the revolving credit agreement and mortgages and other notes payable of $9.6 million.

During fiscal 1977 and 1976, average daily bank borrowings outstanding under the Term Loan and Revolving Credit Agreements amounted to $61 million and $71 million, respectively. The maximum borrowings outstanding under these agreements at any month end were $131 million in fiscal 1977 and $122 million in fiscal 1976. The average daily interest rates for these borrowings in fiscal 1977 and 1976 were 7.6% and 7.9% respectively.

Subsequent to the cancellation of these agreements, the Company established $58 million in lines of credit with commercial banks to meet seasonal borrowing requirements. The average borrowings, highest month-end amount outstanding, and average interest rate during fiscal 1977 under these lines of credit were $7 million, $35 million and 7.6%, respectively.

With respect to the lines of credit, and formerly the Revolving Credit Agreement, there are informal arrangements with the banks to maintain compensating balances, expressed in bank collected balances. The Company is expected to maintain average monthly bank collected balances totaling approximately 10 percent of the credit commitment plus 10 percent of the outstanding loans. Such compensating balances requirements are not significant in relation to the Company's recorded cash balances.

Stock Options

The Company has a stock option plan approved by the Stockholders in June 1975 under which officers and key employees may be granted qualified or non-qualified options to purchase not more than 1,000,000 shares of common stock at not less than the fair market value at grant dates and for periods not exceeding ten years. In addition, options granted previously under a stock option plan approved by the Stockholders in 1969 were outstanding during fiscal 1976 and 1977. A summary of option transactions is shown in the table below.

Non-qualified options are exercisable as follows: 264,100 immediately at grant and as to the remaining 246,000 at cumulative 25% increments after each of the first through the fourth annual anniversaries of the grants. Qualified options are exercisable at cumulative 25% increments after each of the first through the fourth annual anniversaries of the grants. 202,500 options were available at February 25, 1978 for future grants. Proceeds from the exercise of stock options are credited to common stock for the aggregate par value of shares issued and the excess is credited to capital surplus, including $8,000 in fiscal 1977 and $105,000 in fiscal 1976.

Summary of Option Transactions

	Shares		Option Price	
	Qualified	Non-Qualified	Per Share	Total
Outstanding, February 28, 1976	289,860	363,000	$ 9.25 to $12.56	$6,565,923
Fiscal 1976:				
Granted	41,500	110,000	11.00 to 12.44	1,807,325
Exercised	(11,160)	(900)	9.25 to 9.625	(115,740)
Cancelled	(23,900)	(2,000)	9.625 to 11.81	(265,498)
Outstanding, February 26, 1977	296,300	470,100	9.25 to 12.56	7,992,010
Fiscal 1977:				
Granted	—	75,000	7.81 to 12.06	859,525
Exercised	(960)	—	9.625	(9,240)
Cancelled	(45,040)	(35,000)	9.25 to 12.06	(848,960)
Outstanding, February 25, 1978	250,300	510,100	$ 7.81 to $12.56	$7,993,335
Shares becoming exercisable in:				
Fiscal 1976	65,680	92,000	$ 9.625 to $12.56	$1,730,112
Fiscal 1977	65,855	44,000	$ 9.625 to $12.56	$1,181,418

Retirement Plans

Retirement benefits for substantially all full-time and certain part-time employees are provided under the companies' retirement plans or by industry plans administered jointly by management and union representatives. The major portion of such employees are covered by industry plans. The cost of all retirement plans amounted to $49.6 and $45.0 million in fiscal 1977 and 1976, respectively. The companies' independent actuaries estimate that vested benefits under the companies' plans exceeded the plans' assets by approximately $12 million at December 31, 1976. In addition, the Company could, under certain circumstances, be liable for substantial unfunded prior service or other costs of jointly administered union/management plans.

Lease Obligations

The Company, like most retailers, has a policy of operating in leased facilities as it believes that its capital can be invested more productively in inventories and store fixtures and equipment. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. The majority of the leases contain escalation clauses relating to property tax increases, and certain of the store leases provide for increases in rentals when sales at the stores exceed specified levels. In addition, the Company leases some store equipment and trucks because of financial and tax considerations.

Leases entered into after January 1, 1977 have been classified as capital or operating leases in accordance with FASB Statement No. 13. Accordingly, the accompanying balance sheet includes $4,789,446, net of accumulated amortization of $122,807, for real property leased under capital leases and $14,400,570, net of accumulated amortization of $960,038, for equipment leased under capital leases. The capitalized value of equipment leased under capital leases is included with owned equipment in the accompanying balance sheet.

Rent expense for fiscal 1977 and 1976, and minimum annual rentals for leases in effect at February 25, 1978 are shown below. All amounts are net of minor sublease rentals and exclusive of lease obligations applicable to facilities closed under the facilities closing program.

Rent Expense

(thousands)	Fiscal	Minimum Rentals	Contingent Rentals	Total
	1977	$ 92,195	$3,858	$ 96,053
	1976	106,108	4,342	110,450

Minimum Annual Rentals

(thousands)	Fiscal	Capital Leases: Equipment	Capital Leases: Real Property	Operating Leases
	1978	$2,699	$ 618	$ 81,200
	1979	2,699	618	75,948
	1980	2,699	618	70,701
	1981	2,699	618	63,716
	1982	2,699	618	58,408
	1983 and thereafter	6,210	9,076	504,029
		$19,705	$12,166	$854,002
Less executory costs		—	121	
Net minimum rentals		19,705	12,045	
Less interest portion		5,389	7,165	
Present value of net minimum rentals		$14,316	$4,880	

Leases entered into prior to 1977 have been accounted for as operating leases. Had such leases been accounted for in accordance with FASB Statement No. 13 (which will be required by the end of fiscal 1978), the following additional amounts of assets and liabilities would have been recorded based on present interpretation of this Statement:

(thousands)	February 25, 1978	February 26, 1977
Property leased under capital leases, net of accumulated amortization.	$200,657	$188,149
Obligations under capital leases.	$229,982	$211,972
Effect of capitalization on net income— decrease.	$5,502	$5,268

Litigation

In the 1974 Annual Report, the Company reported on an antitrust judgment entered in favor of a Mr. Bray and five other cattle producers or feeders in the amount of $35.8 million plus interest. The Company settled this action in 1975 (for payments over the next four years having a present value of about $7 million, which was charged to operations in fiscal 1975) and the judgment was vacated and the action dismissed.

During 1975 and 1976, nine similar antitrust suits alleging violations of sections of the Sherman Act were filed in five states, and all of these were consolidated for pretrial purposes in the Dallas Federal Court. One of these actions was purportedly brought on behalf of a class consisting of all persons who are engaged in the business of raising fat cattle who have not otherwise filed claims and who sold more than 100 head of fat cattle per year. Each of these suits names the Company and other retail food chains as defendants and asks damages and other relief which may include an injunction. While most of these plaintiffs have not specified the amounts of damages they are claiming, their aggregate claims are substantial. In the actions in which money damages are specified or estimated, the plaintiffs allege damages exceeding $270 million.

On December 27, 1977, the District Judge hearing these actions entered a judgment dismissing all of them on the ground that plaintiffs had not sold directly to the retail food chain defendants, following *Illinois Brick Co. v. the State of Illinois* 431 US720(1977). In all but one of such actions, the plaintiffs have appealed the judge's ruling. During 1977, seven additional antitrust suits alleging similar violations of the Sherman Act and seeking unspecified treble damages were filed in Texas and Utah. In certain of these new suits, meat packers, to whom plaintiffs may have sold some of their cattle, are included as alleged co-conspirator defendants with the food chains. All these actions have been transferred to the Dallas Federal Court for pretrial purposes.

The Company also is a named defendant in an action in the Tampa Federal Court in which partners in a citrus grove, who purport to act on behalf of a class of citrus fruit growers in the State of Florida, allege violations of the antitrust laws by the Company and other retail food chains and orange product processors which reduced the wholesale price of citrus fruits to artificially low levels. They seek unspecified treble damages plus injunctive relief and attorneys' fees.

The Company is also a defendant in an action in the Spokane Federal Court brought by some fifty-seven growers of cherries against the Company, other retail food chains, purchasing agents, packers and shippers of fresh Washington cherries. The complaint alleges violations of the antitrust laws which reduced the prices paid for cherries and seeks treble damages of an unspecified amount plus injunctive relief and attorneys' fees.

During the past year, the United States Court of Appeals for the Second Circuit affirmed an FTC finding that the Company had violated the Robinson-Patman Act in purchasing dairy products in the Chicago area. The United States Supreme Court has agreed to review this decision and the argument is expected to be heard by year end.

While no monetary judgment is expected to result in that proceeding, whatever the final outcome, there is a related civil action in Chicago Federal Court in which plaintiffs assert antitrust violations and demand unstated treble damages on behalf of an alleged class of competitors in the Chicago area. The District Court judge hearing the action has denied class status to the plaintiffs.

In the above private actions, all of which are in the preliminary pretrial stages, money damages awarded to plaintiffs, if any, would automatically be trebled and such a judgment would also include reasonable plaintiffs' attorneys' fees. The Company denies all allegations of wrong-doing in the above mentioned actions. No provision for possible liability has been made in the accompanying financial statements.

The Company is also involved in various other claims, administrative agency proceedings and lawsuits arising out of the normal conduct of its business.

Although the ultimate outcome of the legal proceedings cannot be predicted, the Company's present opinion is that any resulting liability will not have a material effect upon the Company's financial position.

Replacement Cost

(unaudited)

In compliance with regulations of the Securities and Exchange Commission, the Company is required to include, in its Form 10-K, a copy of which is available upon request, certain estimated replacement cost data applicable to inventories, productive capacity, cost of merchandise sold and depreciation. Because of the rapid turnover of inventories, the carrying value of inventories is assumed to approximate replacement cost and therefore, cost of merchandise sold reflects approximate replacement cost at time of sale. The additional depreciation charges associated with the cost of replacing fixed assets are normally accompanied by improvements in productivity, reduction in energy consumption and other economies, although these economies are not readily quantifiable.

(Dollars in thousands, except per share figures)	Fiscal 1977	Fiscal 1976
Sales	$7,288,577	$7,235,854
Cost of merchandise sold	5,738,002	5,770,698
Gross margin	1,550,575	1,465,156
Store operating, general and administrative expense	1,532,373	1,435,636
Income from operations	18,202	29,520
Interest expense—net	12,811	5,294
Income before income taxes and extraordinary credit	5,391	24,226
Income taxes	2,200	10,445
Income before extraordinary credit	3,191	13,781
Extraordinary credit—Tax benefit of net operating loss carryforward	1,600	10,000
Net income	4,791	23,781
Retained earnings—Beginning of year	69,330	45,549
	74,121	69,330
Less—Cash dividends	3,734	—
Retained earnings—End of year	$ 70,387	$ 69,330
Per common share:		
Income before extraordinary credit	$.13	$.56
Extraordinary credit	.06	.40
Net income	$.19	$.96
Dividends	$.15	—

See Financial Review and Summary of Significant Accounting Policies on Pages 14 through 19.

Auditors' Opinion

Deloitte Haskins & Sells
Certified Public Accountants

To the Board of Directors and Stockholders of The Great Atlantic & Pacific Tea Company, Inc.:

We have examined the consolidated balance sheets of the Great Atlantic & Pacific Tea Company, Inc. and subsidiary companies as of February 25, 1978 and February 26, 1977 and the related statements of consolidated income and retained earnings and of changes in consolidated financial position for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our opinion, dated May 2, 1977, on the 1976 financial statements was qualified as being subject to the effects on the 1976 financial statements of the resolution of certain legal proceedings. As discussed under the caption Litigation in the Financial Review that accompanies the financial statements, on December 27, 1977, the United States District Court in Dallas entered a judgment dismissing nine antitrust suits that had been filed in 1975 and 1976. However, as of May 3, 1978, appeals had been filed in eight of the dismissed suits. Although the amount of liability at February 25, 1978, with respect to all claims and lawsuits, cannot be ascertained, the Company's present opinion is that any resulting liability will not have a material effect upon the Company's financial position. Accordingly, our present opinion on the 1976 financial statements, as presented herein, is different from that previously expressed.

In our opinion, such financial statements present fairly the financial position of the companies as of February 25, 1978 and February 26, 1977 and the results of their operations and the changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles consistently applied.

Deloitte Haskins & Sells

Two Broadway
New York, New York 10004
May 3, 1978

Assets (Dollars in thousands)	February 25, 1978	February 26, 1977
Current assets:		
Cash and short-term investments	$ 26,537	$ 26,231
Accounts receivable	54,580	49,813
Inventories	592,357	567,011
Properties held for development and sale	44,311	14,596
Prepaid expenses	6,516	9,434
Total current assets	724,301	667,085
Property:		
Land	8,421	9,047
Buildings	72,727	75,420
Equipment	374,759	360,262
Total—at cost	455,907	444,729
Less accumulated depreciation and allowance for losses in closed facilities	185,645	183,817
	270,262	260,912
Store fixtures and leasehold improvements, at amortized cost	121,530	107,350
Real property leased under capital leases	4,789	—
Property—net	396,581	368,262
Other assets	12,349	9,550
Total	$1,133,231	$1,044,897

Liabilities and Stockholders' Equity (Dollars in thousands)		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 3,213	$ 593
Accounts payable	301,645	272,549
Income taxes payable	—	1,423
Accrued salaries, wages and benefits	81,799	66,117
Accrued taxes, other than income taxes	39,463	33,677
Current portion of facilities closing reserve and other accruals	46,634	49,421
Total current liabilities	472,754	423,780
Long-term debt	134,227	107,592
Obligations under capital leases	17,445	—
Deferred income taxes and investment tax credit	18,271	18,026
Facilities closing reserve and other liabilities	17,956	23,987
Stockholders' equity:		
Preferred stock—no par value; authorized—3,000,000 shares; issued—none		
Common stock—$1 par value; authorized—40,000,000 shares; outstanding—1977—24,892,084 shares; 1976—24,891,124 shares	24,892	24,891
Capital surplus	377,299	377,291
Retained earnings	70,387	69,330
Total stockholders' equity	472,578	471,512
Total	$1,133,231	$1,044,897

See Financial Review and Summary of Significant Accounting Policies on Pages 14 through 19.

(Dollars in thousands)	Fiscal Year Ended February 25, 1978	February 26, 1977
Source of funds:		
From operations:		
Net income before extraordinary credit	$ 3,191	$13,781
Expenses (income) not requiring (providing) working capital:		
Depreciation and amortization	59,972	54,590
Adjustment of facilities closing reserves (non-current portion)	—	(7,200)
Deferred income taxes (non-current portion)	1,810	1,974
Deferred investment tax credit	(1,695)	(1,805)
Charge in lieu of current U.S. income tax	1,600	10,000
Loss on disposition of property not included in facilities closing program	395	6,850
Working capital provided from operations	65,273	78,190
Proceeds from disposition of property	1,047	12,055
Obligations under capital leases	17,445	—
Proceeds from borrowings	281,635	110,776
Total	365,400	201,021
Disposition of funds:		
Dividends	3,734	—
Expenditures for property	70,544	94,633
Property leased under capital leases	19,189	—
Current maturities and repayment of long-term debt	255,000	81,704
Transfer of non-current facilities closing reserves to current liabilities	6,255	21,200
Other	2,436	4,048
Total	357,158	201,585
Increase (decrease) in working capital	8,242	(564)
Working capital—beginning of year	243,305	243,869
Working capital—end of year	$251,547	$243,305
Increase (decrease) in components of working capital:		
Cash and short-term investments	$ 306	$(44,767)
Accounts receivable	4,767	14,607
Refundable income taxes	—	(7,800)
Inventories	25,346	48,810
Property held for development and sale	29,715	14,596
Prepaid expenses	(2,918)	(1,563)
Net change in current assets	57,216	23,883
Accounts payable	29,096	(3,820)
Current portion of long-term debt and capital lease obligations	2,620	321
Income taxes payable	(1,423)	(24)
Accrued expenses	21,468	32,781
Current portion of closing reserve and other accruals	(2,787)	(4,811)
Net change in current liabilities	48,974	24,447
Increase (decrease) in working capital	$ 8,242	$ (564)

See Financial Review and Summary of Significant Accounting Policies on pages 14 through 19.

The following are management's comments on significant changes during the last five fiscal years. These comments should be read in conjunction with the Five Year Summary of Operations on page 24 and the discussion of fiscal 1977 operating results on page 15.

Fiscal 1977 Compared with Fiscal 1976
Sales for fiscal 1977 were $7.3 billion compared with $7.2 billion in fiscal 1976. Sales for the fourth quarter of 1977 were $32 million below the comparable quarter of the prior year. This decrease in sales is due primarily to the reduction in the number of stores in operation and the fact that sales of continuing stores have not kept pace with inflation.

Gross margin as a percent of sales increased from 20.2% in fiscal 1976 to 21.3% in fiscal 1977 due to merchandising programs and changes in the product mix resulting, in part, from an increase in the average store size. Store operating, general and administrative expenses were 21.0% of sales in fiscal 1977 as compared with 19.8% in fiscal 1976. This increase was due to higher labor and occupancy costs offset, in part, by reductions in administrative costs. Interest expense (net) increased due to the higher level of borrowing in fiscal 1977.

Fiscal 1977 net income of $4.8 million is after an extraordinary credit of $1.6 million representing the tax benefit of the Company's net operating loss carryforward. Net income for the year is after a loss of $5.0 million in the third quarter which included a $2.6 million provision for the closing of a bakery and other costs associated with the Company's redevelopment efforts.

Fiscal 1976 Compared with Fiscal 1975
Sales for the 52 weeks of fiscal 1976 were $7.2 billion compared with $6.5 billion in the 53 week period of 1975. This 11% increase in sales was moderated by the effect of the 53rd week in fiscal 1975. Average weekly sales for fiscal 1976 were 13% above the prior year although much of this increase occurred in the first and second quarters of the fiscal year.

Gross margin as a percent of sales was 20.2% in fiscal 1976 compared with 19.5% in fiscal 1975. This increase was due, in part, to merchandising programs begun in fiscal 1975 and improvements in the product mix.

Store operating, general and administrative expenses decreased from 20.1% of sales in fiscal 1975 to 19.8% in fiscal 1976 due to the dramatic rate of sales increases experienced in the early part of the fiscal year. Interest expense increased due to the higher level of borrowing in fiscal 1976.

Fiscal 1976 net income of $23.8 million includes an extraordinary credit of $10 million representing the tax benefit of the Company's net operating loss carryforward.

Significant Changes Prior to Fiscal 1975
Fiscal 1975 sales were 4.9% below fiscal 1974 sales of $6.9 billion due to the closing of approximately 1,360 stores under the facilities closing program. Net income for fiscal 1975 is primarily attributable to the $35 million net reversal of the facilities closing reserve and the $6.6 million credit provision for income taxes. Expenses for the year reflect costs of the Company's refurbishing program and the settlement of litigation. The pre-tax loss for fiscal 1974 of $168.3 million includes a $200 million provision for the costs of a facilities closing program to close marginal and unprofitable stores along with some support facilities.

(Dollars in thousands, except per share figures)

For the Fiscal Year	1977	1976	1975[c]	1974	1973
Summary of operations					
Sales	$ 7,288,577	$ 7,235,854	6,537,897	6,874,611	6,747,689
Cost of merchandise sold	5,738,002	5,770,698	5,260,844	5,514,580	5,513,573
Gross margin	1,550,575	1,465,156	1,277,053	1,360,031	1,234,116
Store operating, general and administrative expense	1,532,373	1,435,136	1,311,692	1,326,601	1,213,212
Income (loss) from operations	18,202	30,020	(34,639)	33,430	20,904
Adjustment of (provision for) cost of closing facilities	—	(500)	35,000	(200,000)	—
Interest expense—net	12,811	5,294	4,447	1,701	1,777
Income (loss) before income taxes and extraordinary credit	5,391	24,226	(4,086)	(168,271)	19,127
Income taxes—provision (credit):					
United States income taxes:					
Current	1,600	10,000	(7,600)	4,258	3,168
Deferred—net	—	—	7,400	(19,105)	2,687
State income taxes	345	100	(25)	1,100	600
Foreign income taxes:					
Current	140	176	1,983	736	571
Deferred	1,810	1,974	250	(1,115)	(821)
Investment credit:					
Deferred	—	—	(6,800)	4,850	2,502
Amortized	(1,695)	(1,805)	(1,808)	(1,924)	(1,807)
Total income taxes	2,200	10,445	(6,600)	(11,200)	6,900
Income (loss) before extraordinary credit	3,191	13,781	2,514	(157,071)	12,227
Extraordinary credit	1,600	10,000	1,800	—	—
Net income (loss)	4,791	23,781	4,314	(157,071)	12,227
Percent of sales	.07	.33	.07	(2.28)	.18
Depreciation and amortization	59,972	54,590	53,709	51,620	49,570
Retirement plans	49,639	45,033	50,092	37,574	27,770
Number of employees	81,000	90,000	92,900	105,000	113,800
Number of stores	1,905	1,978	2,074	3,468	3,680
Total store-area (square feet)	38,354,000	38,478,000	39,202,000	55,763,000	56,354,000
Balance Sheet Data					
Total assets	1,133,231	1,044,897	989,277	1,020,708	1,018,599
Working capital	251,547	243,305	243,869	214,023	294,555
Current ratio	1.53	1.57	1.61	1.47	1.82
Additions to property	104,814*	94,633	65,880	80,363	55,035
Property—net	396,581	368,262	339,174	340,889	360,253
Long-term debt	134,227	107,592	78,520	39,075	2,274
Stockholders' equity	472,578	471,512	447,614	443,277	611,532
Common Stock Data					
Income (loss) per share before extraordinary credit[a]	.13	.56	.10	(6.31)	.49
Extraordinary credit per share[a]	.06	.40	.07	—	—
Net income (loss) per share[a]	.19	.96	.17	(6.31)	.49
Cash dividends per share	.15	—	—	.45	—
Stockholders' equity per share[b]	18.99	18.94	17.99	17.82	24.58
Shares outstanding[a]	24,892,084	24,885,630	24,878,012	24,876,644	24,875,259
Number of stockholders	38,012	40,200	40,900	42,100	43,500

(a)Based on the weighted average number of common shares outstanding each year.
(b)Based on the number of common shares outstanding at each year-end.
(c)53 weeks; all other years contained 52 weeks.
*Includes $35 million of leased equipment. Excludes real property leased under capital leases.

Directors

William M. Agee
Chairman, President and Chief Executive Officer
The Bendix Corporation

Harold J. Berry
Chairman, Investment Banking Committee
Merrill Lynch, Pierce, Fenner & Smith Inc.
Director,
Merrill Lynch & Co., Inc.

Walter D. Dance
Vice Chairman of the Board and Executive Officer
General Electric Company

Charles F. Detmar, Jr.
Partner; Cahill Gordon & Reindel
Attorneys

Edwin D. Dodd
Chairman of the Board and Chief Executive Officer
Owens-Illinois, Inc.

Allan A. Feder
Executive Vice President, President—Manufacturing Group

Barbara Barnes Hauptfuhrer

David W. Morrow
President and Chief Operating Officer

Jonathan L. Scott
Chairman of the Board of Directors and Chief Executive Officer

Hobart Taylor, Jr.
Partner; Dawson, Riddell, Taylor, Davis & Holroyd
Attorneys

Edward J. Toner
Partner; Collins, Toner & Rusen
Attorneys

Forwood C. Wiser Jr.

Corporate Officers

Jonathan L. Scott
Chairman of the Board of Directors and Chief Executive Officer

David W. Morrow
President and Chief Operating Officer

Allan A. Feder
Executive Vice President, President—Manufacturing Group

Richard F. Doyle
Executive Vice President, Finance and Treasurer

John J. Miles
Executive Vice President

Lowell A. Peters
Executive Vice President

William I. Walsh
Executive Vice President

Willis D. Lonn
Executive Vice President, Merchandising and Procurement

Robert B. Runyon
Executive Vice President, Human Resources

Robert T. Blade
Vice President and Division President

John J. Cairns, Jr.
Vice President and Region President

John L. Dean
Vice President—Management Information Services

Ivor D. Donaldson
Vice President—Property Development

Roger L. Galassini
Vice President—Administrative Services

James T. Gow, Jr.
Vice President—Warehousing and Distribution

James L. Madden
Vice President and Region President

Arthur C. Melervey
Secretary

Earl N. Pilgrim
Vice President—Purchasing

Robert M. Quinn
Controller

Louis A. Savarese
Vice President—Production

Lawrence W. Snyder
Vice President—Merchandising

Robert L. Spencer
Vice President and Division President

Darrell V. Stiffler, Jr.
Vice President—Industrial Administration

Robert G. Ulrich
Vice President and General Counsel

Philip E. Hoversten
Assistant Treasurer

Harold N. Tolchinsky
Assistant Secretary

Executive Offices
Box 418
2 Paragon Drive
Montvale, New Jersey 07645
Telephone 201-573-9700

Transfer Agent and Registrar
Morgan Guaranty Trust Company Of New York
New York, N.Y.

Common stock of the Company is traded on the New York Stock Exchange under the symbol "GAP," and has unlisted trading privileges on the Boston, Midwest, Philadelphia-Baltimore-Washington, Pittsburgh, Cincinnati and Detroit Stock Exchanges.

The Annual Meeting will be held on Friday, June 23, 1978, at 10 a.m. at the Detroit Plaza Hotel, Renaissance Center in Detroit, Michigan. Stockholders are cordially invited to attend.

Copies of the Form 10-K submitted to the Securities and Exchange Commission will be provided to stockholders upon written request to the Secretary.

Design: REGN/CALIFANO, Inc., New York


A&P